



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 741-3697  
FAX (615) 532-2765**

Independent Auditor's Report

January 25, 1999

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying general-purpose financial statements of the State of Tennessee as of and for the year ended June 30, 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The State of Tennessee has included such disclosures in Note 9I. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the State of Tennessee's disclosures with respect to the year 2000 issue made in Note 9I. Further, we do not provide assurance that the State of Tennessee is or will be year 2000 ready, that the State of Tennessee's year 2000 remediation efforts will be successful in whole or in part, or that the parties with which the State of Tennessee does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Tennessee as of June 30, 1998, and the results of its operations and cash flows of its proprietary and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2C to the general-purpose financial statements, the State of Tennessee implemented GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As discussed in Note 2C to the general-purpose financial statements, management has reported corrections of errors in the June 30, 1998, financial statements. As discussed in Note 2C to the general-purpose financial statements, the State of Tennessee has changed its fixed asset capitalization threshold.

The statistical and economic data, listed in the table of contents, were not audited by us, and accordingly, we do not express an opinion thereon.

In accordance with *Government Auditing Standards*, we will issue our report dated January 25, 1999, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grants in the *Tennessee Single Audit Report*.

Sincerely,

\s\ Arthur A. Hayes

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit